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MCI

MCI Communications
Corporation

1801 Pennsylvania Avenue, NW
Washington, DC 20006
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Leonard S. Sawicki
Director
FCC Affairs

RECEIPT

EX PARTE

January 27, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

Re: CC Docket 97-211: WorldCom / MCI Merger

Dear Ms. Salas:

The attached letter was delivered to the FCC yesterday evening. Please add it to the record of this proceeding.

Sincerely,

Leonard S. Sawicki

Leonard S. Sawicki

Attachment

WORLD COM

MCI

January 26, 1998

The Honorable William Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Dear Chairman Kennard:

Today, WorldCom and MCI file their joint reply to comments concerning our merger. As those comments and our earlier submissions demonstrate, the MCI WorldCom merger is definitely in the public interest.

On one issue, however, we want to add our personal voices. Some have questioned MCI WorldCom's residential strategy.

MCI WorldCom intends to be the leading local service competitor for both residential and business customers of all sizes across the country. Indeed, local market entry is a driving force behind our merger.

Our investment has -- and will -- follow that intent. Each company has already invested billions of dollars to enter local telephone markets. Simple business logic explains why. MCI WorldCom will have an established base of residential and business customers, the marketing and product-development expertise to reach those customers, and the local facilities that will be used most efficiently by carrying residential night and weekend traffic along with business traffic.

But investment will flow and intent can be fulfilled only where real business opportunities exist. Thus far, achieving the goal of local competition has proven extremely painstaking and difficult because of delay, litigation and the obstructionist tactics of incumbents. Early approval of the MCI WorldCom merger -- and careful and vigilant enforcement of the Telecommunications Act -- are vital steps to bringing competitive choice in local phone service to residential and business customers.

Sincerely.

Bernard J. Ebbers
President and CEO
WorldCom. Inc.

Bert C. Roberts. Jr.
Chairman
MCI Communications Corporation

cc: Commissioner Susan Ness
Commissioner Harold W. Furchtgott-Roth
Commissioner Michael K. Powell
Commissioner Gloria Tristani

B

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Applications of WorldCom, Inc. for Transfers of Control of MCI Communications Corporation	AFFIDAVIT OF SUNIT PATEL CC Docket No. 97-211

STATE OF MISSISSIPPI,)
) ss.:
COUNTY OF HINDS,)

1. My name is Sunit Patel. I am the Treasurer of WorldCom, Inc. ("WorldCom").

2. I participated in the preparation of WorldCom's estimates of achievable cost savings that are expected to result from its proposed merger with MCI Communications Corporation ("MCI"). Those cost savings are set forth at pp. 40-43 of Amendment No. 3 to WorldCom's SEC Form S-4, filed with the SEC on January 22, 1998, and attached as an Exhibit to the Joint Reply filed by WorldCom and MCI with the Federal Communications Commission on January 26, 1998. The cost savings estimates were prepared jointly by a team of WorldCom and MCI engineers and analysts. They are estimates, but WorldCom believes that they are, on the whole, achievable. WorldCom also believes that they are reasonable when compared to the combined company's revenues and operating expenses.

3. To calculate the projected cost savings resulting from WorldCom's proposed merger with MCI (the "proposed merger"), WorldCom estimated the projected costs WorldCom and MCI would incur on a stand alone basis, and the proportion of those costs that could be reduced by combining the businesses of the two companies.

4. When estimating those projected savings, WorldCom relied on its experience in the telecommunications business and its experience with acquiring other companies. WorldCom has met or exceeded its projected cost savings estimates when acquiring companies in the past.[1] WorldCom anticipates that it will similarly meet its projected cost savings estimates after its merger with MCI.

5. WorldCom devoted considerable effort to developing its synergy estimates. Although it would be impossible in this affidavit to replicate all of that work, I will describe three specific examples of WorldCom's estimates of certain cost savings arising from the proposed merger: reduced domestic network costs, avoided costs in MCI's local activities and reduced local capital expenditures. For reasons of confidentiality, I will not discuss specific detailed dollar amounts. This affidavit is not intended to be an exhaustive or comprehensive analysis of

[1] For example, WorldCom substantially exceeded its projected cost savings estimates after acquiring MFS Communications Company, Inc. on December 31, 1996.

all the savings that WorldCom and MCI can achieve as a result of the proposed merger and does not attempt to set forth any revenue enhancements that might result from the merger.

I. DOMESTIC NETWORK COST SAVINGS

6. Domestic network costs include fixed line costs and variable line costs. For fixed line costs, WorldCom and MCI pay a set monthly fee for access on another company's network. For variable line costs, WorldCom and MCI pay a fee on a metered, per-minute or per-call basis.

A. Fixed Line Costs

Four types of fixed line costs are involved: offnet costs, dedicated access line and local loop line costs, entrance facility costs and direct end office trunking costs.

a. Offnet Costs

7. WorldCom and MCI incur offnet line costs when they lease a line from each other or another interexchange carrier to provide services off their respective networks. For example, WorldCom leases a line from MCI to provide service for its customers between Dallas and El Paso, Texas. The monthly fee paid to lease that line is recorded as an offnet cost.

8. The S-4 estimates were based in part on WorldCom's anticipation that it will be able to reduce its

projected offnet costs after the merger by moving its offnet capacity that is on the long distance networks of other carriers to MCI's long distance network. WorldCom currently has a portion of its offnet capacity on MCI's long distance network. After the proposed merger, WorldCom expects to be able to move an additional portion of its offnet capacity to MCI's facilities by 1999 and a significant portion by 2001.

9. The S-4 estimates were also based in part on WorldCom's anticipation that MCI will be able to reduce its projected offnet costs after the merger by moving its offnet capacity that is on the long distance networks of other carriers to WorldCom's long distance network. MCI currently has a portion of its offnet capacity on WorldCom's long distance network. Within the first few years after the proposed merger, WorldCom anticipates that MCI will be able to move more of its offnet capacity to WorldCom's facilities. As WorldCom expands its long distance network through new builds, WorldCom anticipates that MCI would move a significant amount of its offnet capacity to WorldCom's network by 2001.

b. DAL/LL Costs

10. WorldCom and MCI incur dedicated access line ("DAL") costs and local loop ("LL") line costs when they lease a line from a local exchange carrier. A DAL typically connects an end user to an IXC's switch. Such a DAL allows

the long distance customer to by-pass the LEC's switched network when the customer receives or places a call. WorldCom leases such a line if it can provide that long distance customer better rates by incurring the DAL cost than it could by routing the customer's long distance calls through the LEC's local switched network. Similarly, a local loop provides a non-switched connection between an IXC and an end user. When WorldCom provides a customer with a private line between different cities, it leases a local loop from a LEC at either end of the private line to complete the non-switched connection between the end users. The cost of leasing such lines is recorded as DAL and LL costs, respectively.

11. WorldCom and MCI incur direct end office trunking ("DEOT") costs when they lease a line from a LEC that connects WorldCom's and MCI's respective POPs with a LEC's end office (a "DEOT route"). If WorldCom and MCI do not lease a DEOT route, then a call on their respective networks enters the LEC's network through the LEC's serving wire center and is routed to the LEC's tandem switches. Each tandem switch is connected to several end offices that are in turn connected by copper wires to end users. The call is routed from the tandem switch to the appropriate end office and then to its ultimate destination. MCI and WorldCom must pay the LEC a per-minute or per-call fee to carry their respective traffic from the LEC's serving wire

center to the LEC's end offices. That per-minute or per-call fee is recorded as a subpart of their respective switched access costs. In contrast, the DEOT route goes directly from the IXC's POP to the LEC's end office. The DEOT cost is a fixed, monthly fee. Thus, WorldCom and MCI lease a DEOT route when the volume of traffic routed through a particular LEC end office is high enough that the DEOT cost is less than the switched access cost that would be incurred without the leased DEOT route. The monthly fee that each company pays to lease a DEOT route is recorded as a subpart of its respective DAL/LL costs.

12. The S-4 estimates were based in part on WorldCom's anticipation that MCI will be able to reduce its projected DAL and LL costs after the merger by moving its DAL and LL capacity that is presently on the local networks of other carriers to WorldCom's and Brooks Fiber's local networks. After the merger, WorldCom's and Brooks Fiber's networks could provide significantly more of MCI's DAL and LL capacity than they are currently providing. As WorldCom expands its local networks through new builds, WorldCom could provide even more of that capacity by the year 2002.

c. <u>Entrance Facilities Costs</u>

13. WorldCom and MCI incur entrance facilities costs when they lease a line from a LEC that connects the LEC's serving wire center with WorldCom's and MCI's respective points of presence ("POP"). The monthly fee that WorldCom and MCI pay to lease lines between a LEC's serving wire center and WorldCom's and MCI's respective POPs is recorded as an entrance facilities cost.

14. The S-4 estimates were based in part on the assumption that MCI will be able to reduce its projected entrance facilities costs after the merger by moving its entrance facilities capacity that is on the local networks of other carriers to WorldCom's and Brooks Fiber's local networks. After the merger, WorldCom's local network could provide a significant portion of MCI's entrance facility capacity. As WorldCom and Brooks Fiber expand their local networks, WorldCom could provide even more of MCI's entrance facility capacity by 2002.

B. <u>Variable Line Costs</u>

15. Six types of variable line costs are involved: switched access costs, in-WATS costs, domestic WATS costs, non-contiguous WATS costs, directory assistance costs and debit card costs.

a. <u>Switched Access Costs</u>

16. WorldCom and MCI incur switched access costs when they use the local switched network of a LEC to originate or terminate a long distance call. Unlike DAL costs and LL costs, switched access costs are incurred on a per-minute or per-call basis. For example, if a Washington, D.C. customer is connected through a DAL to WorldCom's POP, WorldCom pays a monthly fee to a LEC in Washington, D.C. for the DAL. If that customer makes a call to Los Angeles, California, WorldCom pays a per-minute or per-call fee to a LEC to complete the call through the LEC's local switched network in Los Angeles. Such a call would enter the LEC's network at its serving wire center and then pass through the LEC's tandem switches and the appropriate end office before reaching its final destination. The per-minute or per-call fee for accessing the LEC's switched network is recorded as a switched access cost. As described above, WorldCom and MCI reduce their switched access costs when they lease a DEOT route.

17. The S-4 estimates were based in part on WorldCom's anticipation that it will be able to reduce its projected switched access costs after the proposed merger by moving its switched access capacity that is on the local networks of other carriers to MCI's DEOT routes. WorldCom is projected to lease DEOT routes for a portion of its local network traffic carried by LECs. MCI leases significantly

more DBOT routes than WorldCom. After the merger, WorldCom anticipates that it could take advantage of MCI's DBOT routes and move a significant amount of its local network traffic onto MCI's routes.

18. The S-4 estimates were also based in part on WorldCom's anticipation that MCI will be able to reduce its projected switched access costs after the proposed merger by moving its switched access capacity that is on the local networks of other carriers to WorldCom's and Brooks Fiber's local networks.

b. <u>In-WATS Costs</u>

19. WorldCom and MCI incur In-WATS costs when calls originate on another IXC's network and are delivered to WorldCom's or MCI's respective networks. The originating IXC bills MCI or WorldCom for such calls. WorldCom and MCI incur In-WATS costs when the call originates off their respective networks within the continental United States, Alaska, Canada, Hawaii, Puerto Rico or the Virgin Islands. For example, if an end user places an "800" call in Canada to a WorldCom customer, WorldCom pays a per-minute or per-call fee to the IXC in Canada to deliver the "800" call to WorldCom's network. The per-minute or per-call fee paid by WorldCom to the originating IXC is recorded as an In-WATS cost.

20. The S-4 estimates were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected In-WATS costs after the merger by optimizing their In-WATS rates with other long distance carriers and by taking advantage of MCI's additional facilities and relationships with other carriers. Moreover, the combined company could achieve an additional reduction in In-WATS costs by taking advantage of its greater purchasing power and negotiating lower rates.

c. Domestic WATS Costs

21. WorldCom and MCI incur domestic WATS costs when they pay each other or another IXC to terminate a call within the continental United States. IXCs incur domestic WATS costs when they have overflow traffic. The per-minute or per-call fee paid by the originating IXC to the terminating IXC is recorded as a domestic WATS cost.

22. The S-4 estimates were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected domestic WATS costs after the merger by optimizing their domestic WATS rates with other long distance carriers.

d. Non-Contiguous WATS Costs

23. WorldCom and MCI incur non-contiguous WATS costs when they pay another IXC to terminate a call within Alaska, Canada, Hawaii, Puerto Rico or the Virgin Islands.

Non-contiguous WATS costs are thus the same as domestic WATS costs, except for the area in which the call is terminated.

24. The S-4 estimates were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected non-contiguous WATS costs after the merger by optimizing their non-contiguous WATS rates with other long distance carriers and by taking advantage of MCI's additional facilities and relationships with other carriers. Moreover, the combined company could achieve an additional reduction in its non-contiguous WATS costs by taking advantage of its greater purchasing power and negotiating lower rates.

e. Directory Assistance Costs

25. WorldCom and MCI incur directory assistance costs when they pay LECs for providing directory assistance services to their respective long distance customers. For example, if a New York City customer of WorldCom calls directory assistance in Washington, D.C., by dialing "1-202-555-1212", WorldCom pays a LEC in Washington, D.C. a per call fee for providing the directory assistance service. That fee is recorded as a directory assistance cost.

26. The S-4 estimates were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected directory assistance costs after the merger by optimizing their directory assistance rates with

LECs. The combined company could achieve those savings by taking advantage of its greater purchasing power and negotiating a reduction in its current directory assistance rates.

f. Debit Card Costs

27. WorldCom incurs debit card costs when it pays a third-party vendor a per-minute or per-call fee to process calls made on its debit cards. For example, when a customer places a call using a WorldCom debit card, the call goes through a third-party vendor which tracks the call and records the debit. WorldCom pays that vendor a fee for each call. The fee is recorded as a debit card cost.

28. The S-4 estimates were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected debit card costs after the proposed merger. WorldCom could achieve those savings by moving its debit card services to MCI's debit card platform. Where MCI uses a third-party vendor to process some of its debit card services, WorldCom anticipates that the combined company could also achieve debit card savings by taking advantage of its greater purchasing power and negotiating lower rates for outside vendor resources.

II. AVOIDED COSTS IN MCI's LOCAL ACTIVITIES

29. MCI incurs both SG&A costs and line costs when it offers local services to its customers. MCI provides local services by using its own local networks and by

reselling the services of other LECs (such as the RBOCs) in areas where it does not own local networks. MCI's local services business operated at a loss in 1997 and is projected to operate at a loss in 1998.

30. The S-4 estimates were based in part on WorldCom's anticipation that the combined company will be able to expand MCI's local services more efficiently than MCI would be able to do so on a stand-alone basis, for two reasons. First, the combined company will be able to reduce its SG&A costs for local services. Those savings will result from reductions in administrative costs in areas where each company owns its own local networks. Second, after the proposed merger, the combined company will use the combined local networks to the fullest extent possible to provide local services to customers who would otherwise have been serviced through a LEC's facilities. By relying on WorldCom's local networks, the combined company will reduce its costs for its local services and thus improve its profit margins for those services. The combined company will experience greater cost savings and better profit margins over time as the revenue from its local services increases and it utilizes its own local facilities to a greater extent.

III. LOCAL CAPITAL EXPENDITURE SAVINGS

31. MCI incurs capital expenses when it expands its local networks within cities where it already offers local services and builds local networks in new cities where it does not offer such services. The S-4 estimates were based on WorldCom's anticipation that the merger will reduce the combined company's projected local capital expenditure budget primarily by reducing duplication and by creating greater purchasing efficiencies.

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge and belief.

Sunit Patel

Sworn to before me this

20th day of March 1998.

Notary Public

Notary Public State of Mississippi At Large
My Commission Expires: October 5, 1999
BONDED THRU HEIDEN-MARCHETTI, INC.

C

SECOND DECLARATION OF DENNIS W. CARLTON AND HAL S. SIDER

CC Docket No. 97-211

March 19, 1998

TABLE OF CONTENTS

I. QUALIFICATIONS AND BACKGROUND

1. I, Dennis W. Carlton, am Professor of Business Economics at the Graduate School of Business of The University of Chicago. I received my B.A. in Applied Mathematics and Economics from Harvard University and my M.S. in Operations Research and Ph.D. in Economics from the Massachusetts Institute of Technology. I have served on the faculties of the Law School and the Department of Economics at The University of Chicago and the Department of Economics at the Massachusetts Institute of Technology. I specialize in the economics of industrial organization, which is the study of individual markets and includes the study of antitrust and regulatory issues. I am co-author of the book Modern Industrial Organization, a leading text in the field of industrial organization, and I also have published numerous articles in academic journals and books. In addition, I am Co-Editor of the Journal of Law and Economics, a leading journal that publishes research applying economic analysis to industrial organization and legal matters. I have served as an Associate Editor of the International Journal of Industrial Organization and Regional Science and Urban Studies, and have served on the Editorial Board of Intellectual Property Fraud Reporter. A copy of my curriculum vitae is attached as Appendix 1 to this affidavit.

2. In addition to my academic experience, I am President of Lexecon Inc., an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues. I have served as an expert witness before various state and federal courts, and I have provided expert witness testimony before the U. S. Congress and a variety of state and federal regulatory agencies. I also have served as a consultant to the Department of Justice on the Merger Guidelines of the Department of Justice and Federal Trade Commission, as a general consultant to the Department of Justice on antitrust matters, and as an advisor to the Bureau of the Census on the collection and interpretation of economic data. I have also provided testimony on telecommunications matters before Congress, Federal Courts, state